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PROGRAMME AND BUDGETS, 1998-1999

Programmatic and policy implications of the indicative budget reduction proposals*

Submitted by the Director-General

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* The present document has not been edited.

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Introduction

1. At its sixteenth session, the Industrial Development Board, in its decision IDB.16/Dec.12, requested the Director-General to prepare his programme and budget proposals for the biennium 1998-1999 with a ceiling lower than zero real growth. Subsequently, the Director-General presented his proposals for the future of UNIDO in document IDB/S.7/2 which were derived from the experience and results of the comprehensive ongoing reform process of UNIDO. The Board, at its seventeenth session, adopted decision IDB.17/Dec.2, which, in the context of the Business Plan on the Future Role and Functions of UNIDO, proposed an indicative level of 20 per cent and 10 per cent reduction of the budget for the preparation of the 1998-1999 budget proposals. Furthermore, in response to the discussions at the seventeenth session and with the concurrence of the Board, the President of the Board requested the Secretariat to present a third budgetary proposal, based on an indicative reduction of 30 per cent, with the understanding that it would be considered on an equal basis with the other two submissions (IDB.17/SR.8, para. 10).

2. The Director-General, in complying with the above-mentioned requests from Member States, has submitted three full-fledged budget proposals, based on indicative budget reduction scenarios of 10 per cent, 20 per cent and 30 per cent respectively, on an equal basis, for consideration by the Programme and Budget Committee at its thirteenth session. The elaboration of these three full-fledged budget proposals has taken place under unprecedented time pressure in a period of less than two months—a time normally insufficient even to prepare one budget proposal. The Director-General wishes to express his sincere appreciation for the intense and committed work carried out in the budget preparation process by all staff involved. The entire process was carried out in a highly participatory manner with full involvement of Managing Directors and their senior staff who undertook an in-depth review of present activities against the background of the Business Plan and submitted duly revised work programmes and budget requirements to the Director-General. Based on his own review and overall assessment of these submissions, and following an iterative process of consultations, the Director-General has formulated his consolidated proposals to Member States.

3. The entire submission to Member States consists of the following documents:

- IDB.18/15/1-PBC.13/14/1: Indicative 10 per cent budget reduction;
- IDB.18/15/2-PBC.13/14/2: Indicative 20 per cent budget reduction;
- IDB.18/15/3-PBC.13/14/3: Indicative 30 per cent budget reduction;
- IDB.18/15/4-PBC.13/14/4: Programmatic and policy implications of the indicative budget proposals;
- IDB.18/15/5-PBC.13/14/5: Personnel and financial implications of the indicative budget reduction proposals.

4. The present document summarizes the approach taken in developing the three budgetary scenarios, the main characteristics of each and their key differences, as

well as the programmatic and policy implications of their implementation. Hence, the text partly overlaps with explanations provided in the separate introductions to each budget scenario. The Secretariat considers it useful, however, to present to Member States a consolidated overview document which, within an overall perspective, would allow comparisons between the various scenarios, in addition to the more specific comparisons provided in the three budget reduction proposals.

5. The budget proposals submitted to Member States have emerged from an exceptional situation, particularly due to a combination of the following elements:

(a) The extremely limited time available for an appropriate in-depth programmatic and financial analysis;

(b) The request from Member States to prepare three different budget scenarios;

(c) The conceptualization and application, for the first time, of a genuinely programmatic budget approach and format;

(d) The definition, in the Business Plan, of new programmatic priorities and the concomitant discontinuation of a number of activities;

(e) The drastic streamlining of the organizational structure of UNIDO;

(f) The radical shift in the balance of operations between Headquarters and the field resulting from the strong call by Member States for further decentralization;

(g) The restructuring of field operations themselves with a gradual move towards establishing subregional UNIDO offices.

I. UNIDO REFORM

6. The indicative budget reduction proposals and their implications for the programmatic priorities and the resource base of UNIDO should be seen within the context of the comprehensive reform of UNIDO as conceptualized before the fifth session of the General Conference in December 1993 at Yaoundé.

7. Following its endorsement by Member States, the reform of UNIDO was implemented during 1994-1996. It has redefined the Organization's relevance, prioritized and focused its programmes and services, and—through a streamlining of core managerial and administrative processes—achieved significant financial savings. The result has been a leaner, more effective and cost-efficient organization with a better balance of substantive *vis-à-vis* administrative activities. Some of the specific results of the reform include:

(a) A clear focus on a limited number of industrial subsectors and on newly defined thematic priorities;

(b) The discontinuation of a number of low priority programmes and activities;

(c) The introduction of a thorough screening mechanism that has resulted in rejection of service requests that are not in line with UNIDO priorities or cannot be implemented due to a lack of expertise or limited funding potential;

(d) An increased emphasis on working with private sector counterparts and on a dialogue with private industry, *inter alia*, through a newly-created International Business Advisory Council;

(e) A downsizing of staff by 36 per cent between the end of 1993 and the end of 1996;

(f) A reduction in the ratio of General Service-level staff to Professional-level staff from 1.4:1 in 1995 to 1.2:1 in 1997;

(g) Improved personnel policies, including increased delegation of authority to line managers, a new promotion system and a new approach to staff performance evaluation;

(h) An effective budget reduction of 25 per cent between 1995 and 1997, three quarters of which was implemented in non-technical areas, thus preserving the basic delivery capacities of UNIDO;

(i) Significantly increased approval levels of technical cooperation and higher productivity of staff in terms of per capita levels of delivery and approvals.

II. UNITED NATIONS REFORM PROPOSALS BY THE SECRETARY-GENERAL

8. In July 1997, the Secretary-General presented to the General Assembly a document (A/51/950: Renewing the United Nations: A Programme for Reform) in which he outlines his reform proposals for the work and functioning of the United Nations system. These proposals have a number of important implications for UNIDO.

9. First, they emphasize the need to ensure a unified field representation of all United Nations organizations with a view to achieving goal-oriented collaboration,

programmatic coherence and synergies as well as mutual reinforcement through a single United Nations Development Assistance Framework and common premises. In this context, UNIDO will carefully follow evolving developments and will have to ensure the required degree of flexibility in its own field representation to be able to respond adequately and effectively.

10. Second, the Secretary-General envisages a possible broadening of the mandate of a restructured and revitalized UNIDO in view of gaps in the present United Nations system coverage of issues such as energy, technology, and the major transition from State to private enterprises (A/51/950, para. 88). The Director-General welcomes these ideas and expects their further discussion and analysis in the context of the Special Commission, at the ministerial level, proposed by the Secretary-General as well as, eventually, at the level of the policy-making organs of UNIDO. While these proposals provide a long-term perspective for the determination of the future mandate of UNIDO, the programme and budget proposals submitted to Member States have taken, however, only the Business Plan as adopted by the Board as the relevant policy document and translated the role and functions defined therein into more specific programmes and activities for the next biennium.

III. NEW PROGRAMMATIC APPROACH

11. For the first time, the programme and budget proposals, 1998-1999, are based on a genuinely programmatic concept and approach. This involves a radical departure from past practice when, with few exceptions, the Major Programmes, Programmes and Subprogrammes were identical with corresponding organizational units. Thus, the past emphasis was on the activities of individual units located in different parts of the Organization, with insufficient attention given to their interaction and complementarities. The newly adopted format is based on programmatic and integrated sets of activities. It presents, both in substantive and support areas, those activities and outputs which will enable UNIDO to achieve specific objectives, and quantifies the resources required for this purpose in each case. These resources, in many instances, involve different organizational units making distinct contributions to common programmatic objectives. Thus, complementarities and synergies are clearly emphasized. In implementing the various programmes, effective teamwork within UNIDO is not only desirable, but constitutes a basic necessity. Below, the new programmatic budget format and contents are explained in greater detail.

12. The two main substantive Programmes are derived directly from the Business Plan: Major Programme C (Strengthening of Industrial Capacities) and Major Programme D (Cleaner and Sustainable Industrial Development). Both Major Programmes are composed of a limited number of Programmes and Subprogrammes reflecting the more specific areas of expertise and related activities of UNIDO as contained in the Business Plan.

Major Programme C: Strengthening of Industrial Capacities

13. This Major Programme provides the overarching framework for clustering the following five substantive Programmes:

(a) **Programme C.1 (Industrial Investment, Technology and Information)** pulls together the expertise of UNIDO to support enhanced flows of industrial investment and technology to developing countries and countries with economies in transition, to strengthen required policy and institutional capacities, to promote technological capabilities as a precondition for effective absorption of foreign investment inflows, and to facilitate access to information sources on industrial technologies and investment opportunities.

(b) **Programme C.2 (Industrial Policies and Strategies)** carries out the global forum function of UNIDO through support to the formulation and implementation of industrial policies and strategies. In its first Subprogramme C.2.1 (Industrial Analysis and Policy Advice), the Programme integrates the research capacity of UNIDO with policy advisory and technical cooperation services thus ensuring that, as mandated by the Business Plan, research and industrial studies are clearly target-oriented. Likewise, Subprogramme C.2.2 (Industrial Statistics), while exercising a general normative global forum function, reflects the strong links between reliable industrial statistics on the one hand and effective industrial policy formulation on the other hand.

(c) **Programme C.3 (Institutional Capacity-building)** carries out the global forum function of UNIDO through support to the creation of a conducive environment for the development of a competitive private sector-driven industrial development based on small and medium industries and enhanced capacities in the field of quality, standardization and metrology. The second Subprogramme C.3.2 (Quality, Standardization and Metrology) reflects the emphasis given to this area in the Business Plan and the increased demand for related services from UNIDO in view of their growing importance for achieving international industrial competitiveness.

(d) **Programme C.4 (Integrated Agro-industry Development)** addresses one of the main thrusts of the Business Plan, i.e. the prioritization of agro-industries and their integration into national industrial structures. It

combines the coverage of agro-industries proper with support to a range of agro-support industries, such as agricultural machinery, agro-chemicals, biotechnological inputs for agriculture, and packaging technologies. It thus captures, for the first time, the comprehensive contribution of UNIDO to integrated agro-industry development with a critically important impact on employment creation and poverty alleviation. The focus of this Programme is on African and least developed countries.

(e) **Programme C.5 (Other Sectoral Capacity-building)** is a further response to the call in the Business Plan for UNIDO to support institutional capacity-building at the country and sectoral level. The Programme, with a relatively small resource allocation, carries out selected activities to strengthen process improvement capacities in chemical and engineering industries.

Major Programme D: Cleaner and Sustainable Industrial Development

14. This Major Programme provides the overarching framework for all activities of UNIDO aimed at promoting environmentally sustainable industrial development and, in specifying the activities mandated in the second substantive cluster of the Business Plan, comprises three Programmes:

(a) **Programme D.1 (Cleaner Production)** combines those Subprogrammes aimed at building sector-wide capacities in developing countries and countries with economies in transition to reduce the pollution-intensity of industry through environmentally sustainable industrial development strategies and policy incentives favouring the use of environmentally sound technologies, supporting the adoption of appropriate environmental management standards, and providing institutional support to small and medium industries, primarily through National Cleaner Production Centres, in implementing cleaner production techniques and technologies.

(b) **Programme D.2 (Applied Environmental Technologies)** has a focus on the application of specific environmental technologies related to industrial water management, industrial and hazardous waste management, natural resource management (including the high-impact programme on mitigating the effects of global mercury pollution), environmental monitoring and control technologies, and the important issue of chemical safety.

(c) **Programme D.3 (International Environmental Agreements)** reflects the mandate given to UNIDO by the Business Plan, to support the implementation of international protocols, agreements and conventions in the field of environment. The Programme shows for the first time, in an integrated manner, the thrust of UNIDO activities in exercising this function and specifies planned activities under the Montreal Protocol on Substances that Deplete the Ozone Layer, the United Nations Framework Convention on Climate Change, and the Global Environment Facility.

Other Major Programmes

15. In addition to the two substantive Major Programmes described above, the new programmatic structure comprises the following five Major Programmes:

(a) **Major Programme A (Policy-making Organs)**: This Major Programme includes the meetings of the policy-making organs of UNIDO and the Secretariat's support functions in preparing and supporting those meetings as well as related protocol activities.

(b) **Major Programme B (General Management)**: This Major Programme comprises the key programmes providing strategic guidance and control to the Organization so as to ensure efficient operational and financial management. It advises the Director-General on legal and internal audit matters, maintains coordination with Governments and within the United Nations system, and exercises the public relations and information function of UNIDO.

(c) **Major Programme E (Regional Programme Management)**: This Major Programme groups the activities of UNIDO in support of programming, developing and coordinating UNIDO services within the various developing regions. Within each region, it distinguishes between Headquarters activities and those carried out in a decentralized manner in the subregional and country offices of UNIDO. The Major Programme directly impacts on the substantive activities of UNIDO (as defined under Major Programmes C and D) and ensures their effective and integrated implementation at the regional and country levels.

(d) **Major Programme F (Technical Cooperation Management)**: This Major Programme, in an innovative approach, clusters all activities related to an effective and cost-efficient project cycle management of the technical cooperation activities of UNIDO, including quality assurance, funds mobilization (supplementing country and regional level funds mobilization by UNIDO field offices), programme and project approval, monitoring, evaluation and operational support such as project personnel, and purchase and contracts. It thus exercises a critical support function for the substantive activities of UNIDO.

(e) **Major Programme G (Administration)**: This Major Programme provides for financial, personnel and general services, including management information and buildings management (as a joint responsibility for all Vienna-based United Nations organizations) to ensure responsible and cost-efficient administration for all programmes of the Organization.

16. The Secretariat reiterates that the new programmatic structure does not equate with the organizational structure of UNIDO in a number of important instances. The following examples illustrate this point:

(a) The Programmes on Integrated Agro-industry Development (C.4) and Other Sectoral Capacity-building (C.5) which focus on the strengthening of industrial capacities and are not primarily addressing environmental issues, are grouped under Major Programme C, while in the organizational structure the sector-specific expertise of UNIDO will be located in the substantive Division for Sectoral Support and Environmental Sustainability. It would clearly not be advisable to split up the sector-specific expertise into different organizational units as this would imply the loss of significant synergies.

The programmatic structure is thus based on programme contributions to achieving overall objectives while the organizational structure follows the principle of combining homogeneous types of expertise.

(b) Similarly, the programmatic structure includes a Subprogramme on Montreal Protocol (D.3.1) while the contributions in implementing this Subprogramme will come from different sector-specific organizational units of UNIDO.

(c) The Major Programme on Technical Cooperation Management (F) groups all activities concerned with developing, screening, approving, implementing and evaluating technical cooperation programmes and projects while the organizational units concerned will be found in different parts of UNIDO, both in General Management and in Administration.

IV. DIFFERENT BUDGET SCENARIOS

17. The Director-General has been requested to prepare three budget proposals based on indicative budget reductions of 10 per cent, 20 per cent and 30 per cent, respectively. The approach taken in elaborating these scenarios and their financial and substantive implications are presented in table 1 below, which summarizes the corresponding overall resource levels.

Budget reduction by 10 per cent

18. The 10 per cent scenario, *inter alia*, reflects the budgetary implications of the discontinuation of certain activities as specified in the Business Plan. In some of these cases the Business Plan establishes general criteria for the reorientation of activities without quantifiable budget reduction impact. In other cases, in particular with regard to human resource development, sectoral coverage and activities related to privatization, the budgetary impact has been significant. The budget reductions, including staff costs and non-staff costs, resulting from

Table 1

Regular budget reductions

(In thousands of US dollars at US$ 1 = AS 12.90 at 1996-1997 rates)

A.	Approved budget (net) for 1996-1997	180,899.5
B.	Reductions achieved in the contingency plan during 1996-1997	(24,538.8)
C.	Base for 1998-1999 budget	156,360.7
D.	10 per cent reduction Reductions achieved Budget level (net)	 (15,816.6) 140,544.1
E.	20 per cent reduction Further reductions achieved Budget level (net)	 (15,459.2) 125,084.9
F.	30 per cent reduction Further reductions achieved Budget level (net)	 (15,686.8) 109,398.1

the discontinuation of such activities amount to approximately $5.1 million.

19. Under the 10 per cent scenario, the Secretariat has undertaken great efforts to maximize potential savings from both a streamlined organizational structure and further efficiency-enhancing measures in the areas of administration and general management. Specifically, in accordance with the organizational structure proposed in the Business Plan, three posts of Managing Directors (together with support staff and office costs) have been excluded; a number of organizational units have been merged with a view to achieving greater synergies; the present coordination units for the integration of women, least developed countries and ECDC/TCDC have been reduced to focal points; and non-staff costs in areas such as travel, consultants, expert group meetings and general operating costs have been further reduced. Specifically, travel resources have been reduced by 28 per cent, resources for consultants by 24 per cent, and resources for expert group meetings by 37 per cent. Furthermore, both in various areas of administration and of general management, further post reductions have been effected. The combined effect of these measures has resulted in a budget reduction of 8.2 per cent which thus exceeds the earlier estimate of approximately 5 per cent provided in the Director-General's document on the Future of UNIDO (IDB/S.7/2, para. 46).

20. The total budgetary impact of discontinued activities, organizational streamlining and efficiency-enhancing measures is well in excess of 10 per cent (11.5 per cent), which has allowed the redeployment of resources into substantive priority areas, as requested by many Member States, in the amount of $2.2 million.

21. Thus, under the 10 per cent scenario, the impact on substantive programmes would be largely confined to the discontinuation of certain activities in accordance with the Business Plan while the brunt of the budget reductions would be borne by non-substantive programmes. It has to be pointed out, however, that after the drastic reductions already effected during earlier stages of the reform process in the areas of administration and general management, the quality, effectiveness and efficiency of services in these crucial support functions is bound to suffer.

22. In accordance with the call in the Business Plan for a stronger decentralization to the field, the 10 per cent scenario includes a significant redeployment of posts and resources from Headquarters to the field. At present, UNIDO operates approximately 40 country offices in the various developing regions. Approximately 35 per cent of the cost of maintaining the UNIDO field presence in 1996-1997 was funded from sectoral support funds by UNDP. The provision of this source of funding will discontinue at the end of 1997. The overall resources available for UNIDO field representation have thus, been substantially reduced. With a view to ensuring an effective field representation, the 10 per cent scenario includes the redeployment of a substantial number of Professional posts to field offices while maintaining only small regional bureaux at Headquarters. These enhanced resource allocations to the field would permit the funding and operation of 10 subregional offices and 14 country offices from the regular and operational budgets.

Budget reduction by 20 per cent

23. Under the 20 per cent scenario, the maximum level of possible additional reductions has been attained in the areas of administration and general management. The Secretariat has proposed these further cuts with a view to maintaining the overall share of resources allocated to administrative and managerial support functions at an acceptable level. However, the Secretariat wishes to stress that as a result of these cuts, many crucially important support functions will no longer command the minimum levels of staff required to ensure a smooth financial and operational management of UNIDO. Clearly, the reductions in these areas under the 20 per cent scenario run a great risk of rendering some of the Organization's vital support functions ineffective. This also involves critical planning and oversight functions such as strategic planning and internal audit.

24. The main further implications under the 20 per cent scenario are summarized below:

(a) A reduced field representation with only 10 subregional and 10 country offices. This reduced coverage—implying a loss of four country offices (two in Africa, one in Asia and the Pacific, and one in Latin America and the Caribbean) compared to the 10 per cent scenario—would seriously constrain the UNIDO presence in the field; reduce the Organization's capacity to respond, in direct interaction with country-level counterparts, to the demand for its services; and limit its collaboration with other United Nations agencies. It would thus run counter to the renewed emphasis, as also contained in the Secretary-General's reform proposals, on enhanced United Nations system cooperation and unified field presence;

(b) Reduced resource levels in most substantive programmes. This will lead to significant cuts in the volume of services UNIDO will be capable of rendering to developing countries and countries with economies in transition. Clearly, under this scenario an increasing number of requests for assistance will have to be turned down, even in areas of high demand, and delivery of

technical cooperation in certain regions and countries will suffer;

(c) Discontinuation of selected activities that would otherwise be carried out under the 10 per cent scenario. This involves in particular:

(i) **Subprogramme C.1.1 (Investment Promotion and Technology Transfer)**: Activities related to the establishment of new Investment Promotion Service (IPS) offices, the targeted promotion of investment and technology flows among developing countries and between developing countries and countries with economies in transition, and the upgrading of methodological tools for investment project appraisal. As a result of these cuts, the expansion of the UNIDO investment promotion network in line with requests from a number of Member States would not be possible and the overall development impact of the Subprogramme would be significantly reduced. This would particularly affect those developing countries which hitherto have not been part of the IPS network of UNIDO and thus reduce future possibilities of promoting beneficial investment flows to these countries;

(ii) **Subprogramme C.1.2 (Technological Capacity-building)**: Activities related to the creation of new UNIDO global technology centres. This would imply that UNIDO would have to confine itself to operating the already existing global technology centres. The requests received from Member States to establish new centres, most of which are in an advanced stage of preparation based on detailed feasibility studies, could no longer be pursued. Specifically, this applies to the following centres: International Centre for Hydrogen Energy Technology (ICHET) in Turkey, International Centre for Materials Evaluation Technology (ICMET) in the Republic of Korea, International Centre for Advancement in Manufacturing Technology (ICAMT) in India, International Materials Assessment and Application Centre (IMACC) in Brazil, and the Mediterranean Centre for Marine Industrial Technologies in Greece;

(iii) **Subprogramme C.1.3 (Industrial Information and Networking)**: Activities related to information support to other UNIDO programmes (such as to the National Cleaner Production Centres), the International Referral System on specialized information sources, and information on global human resource development opportunities in the field of industrial development;

(iv) **Subprogramme C.2.1 (Industrial Analysis and Policy Advice)**: Activities related to the social implications of industrial restructuring processes, and to ad hoc requests from policy-making organs. This would be to the detriment of many countries involved in the transition from centrally planned to market economies. Also, it would no longer allow UNIDO to follow up effectively on the recommendations of important global conferences, such as the World Summit for Social Development, the World Conference on Women, and the forthcoming Copenhagen Conference on Social Responsibility of Enterprises, and would weaken the capacity of UNIDO to develop concepts and programmes for the integration of women in industrial development;

(v) **Subprogramme C.2.2 (Industrial Statistics)**: Activities related to special publications (Africa in Figures, ASEAN in Figures, Inventory of Industrial Statistics) and to developing indicators of sustainable development and indicators of industrial competitiveness. This would in particular have repercussions also on Subprogramme C.2.2, which needs to rely on statistical support in developing indicators for comparative assessments of industrial development and performance. It would clearly weaken a central element of the global forum function of UNIDO;

(vi) **Subprogramme C.3.1 (Small and Medium Industry and Private Sector Development)**: Activities related to urban industrial development in follow-up of HABITAT II, and activities specifically addressing rural poverty issues through promoting rural micro- and small industries. The latter would negatively affect the capacity of UNIDO to contribute to poverty alleviation, above all in least developed countries;

(vii) **Subprogramme C.5.1 (Chemical Industries)**: Activities related to essential drug and immunization programmes in

cooperation with WHO and other organizations thus limiting the important contribution of UNIDO to inter-agency co-operation in these areas;

(viii) **Subprogramme C.5.2 (Engineering Industries)**: Activities related to assisting engineering industries in restructuring, and applying computerized maintenance systems and management information systems. This would have a negative impact particularly on more advanced developing countries which need to build up information-based production processes to meet international competition.

Budget reduction by 30 per cent

25. The Secretariat has devoted a great deal of analysis to the potential implications of a 30 per cent scenario. First and foremost, under such a scenario there would be no further scope for budget reductions in the areas of administration and general management as these would have been fully exhausted already under the 20 per cent scenario. There are critical minimum levels of capacity and related resources in areas such as legal services, internal audit, strategic planning, quality assurance and evaluation, support to meetings of policy-making organs, financial services, personnel services, and others which, if not observed, would compromise legal and mandatory commitments of UNIDO.

26. Therefore, further budget reduction under this scenario would fully impact on either the field representation of UNIDO or the substantive programmes or any combination of the two. Before elaborating the specific proposal as presented below, the Secretariat has considered three further options, which however have been found to be invalid:

(a) A complete elimination of the field representation of UNIDO. This option has been rejected as it would imply cutting UNIDO completely off from its counterparts in the field and from interaction with other United Nations organizations at the field level;

(b) Across-the-board reductions in all substantive programmes. This option has been rejected as it would reduce the delivery capacity in the substantive programmes below critical minimum mass requirements (for further elaboration on the concept of critical mass, see paras. 31 to 51 below);

(c) An elimination of entire areas of substantive programmes, such as investment promotion, industrial policy advice, support to international environmental agreements or others. This option has been rejected by the Secretariat as it would not be in accordance with the full range of priority activities as identified in the Business Plan.

27. In light of the above considerations, the Director-General presents the following proposal under the 30 per cent scenario:

(a) A drastic reduction in field representation to only a very limited number of five subregional offices (two in Africa, one in Asia and the Pacific, one in Latin America and the Caribbean, and one in the Arab region) while no country offices can be maintained under this scenario. Travel resources would be increased to the Regional Bureaux at Headquarters to provide the minimum means for a flexible country coverage through staff missions. However, it would be difficult to maintain relevance and focus at the country level, monitor and respond to emerging demand, and cooperate effectively with other United Nations organizations within such a skeleton field representation;

(b) A reduction of Subprogramme C.1.1 (Investment Promotion and Technology Transfer) and Subprogramme C.1.2 (Technological Capacity-building) by 30 per cent, as compared with the 20 per cent scenario. This would allow only the continuation of technology transfer activities directly linked with investment promotion and would reduce the delivery capacity of investment services itself significantly. Many targeted investment promotion forums could no longer be pursued and important technical cooperation activities aimed at strengthening national capacities in technology policy and technology promotion systems would need to be reduced. Also, UNIDO would no longer be in a position to maintain its present global technology centres, the activities of which would need to be phased out;

(c) An elimination of Subprogramme D.2.4 (Environmental Monitoring and Control). This would imply the discontinuation of activities which, with relatively small resources, are complementary to other environmental work carried out by UNIDO. Environmental monitoring and control technologies are applied in various industrial subsectors and processes to reduce direct pollution discharges from industry as well as different types of ambient pollution;

(d) An elimination of Subprogramme D.2.5 (Chemical Safety). This would imply the discontinuation of the important work of UNIDO in promoting preventive technologies for chemical safety, such as the work undertaken in the Regional Network on Pesticides for Asia and the Pacific;

(e) A reduction of Subprogramme C.2.2 (Industrial Statistics) by 30 per cent, as compared with the 20 per cent scenario. This would limit the statistical services of UNIDO to the mandated normative function of collecting, processing and disseminating industrial statistics for non-OECD countries. Technical cooperation activities in support of strengthening national statistical capacities—for which an increasing demand has been noticed, in particular in least developed countries and countries with economies in transition—as well as statistical publications for use by industrial decision makers would have to be discontinued;

(f) Elimination of the three separate substantive coordination functions addressing the integration of women, least developed countries, and ECDC/TCDC. These functions would thus lose their special identity and focus and would have to be undertaken by other staff in addition to their regular assignments;

(g) A further reduction of IDDA supplementary resources by 10 per cent. (Under the 20 per cent scenario, cuts in these resources were limited to 7.5 per cent.) The further cuts will imply reduced services for African countries, in particular least developed countries in the region.

Synopsis of resource allocations

28. Table 2 below summarizes the resource allocations to the two substantive clusters of activities identified in the Business Plan and to the area of policy direction and administration for each of the three scenarios discussed above.

29. Within the framework of the new programmatic approach, the table shows that the overall resources allocated to Strengthening of Industrial Capacities account for approximately one half of the total regular and operational budget resources, both in the 10 per cent scenario and in the 20 per cent scenario. In both scenarios, almost one fifth of regular and operational budget resources is absorbed by Cleaner and Sustainable Industrial Development, which puts the share of both substantive clusters at almost 70 per cent. Accordingly, in both scenarios, the share accounted for by Policy Direction and Administration is less than one third, and that of Administration alone is 15.7 per cent in the 10 per cent scenario and 16.0 per cent in the 20 per cent scenario.

30. The picture changes significantly in the 30 per cent scenario. In this case, the share of the two substantive clusters is reduced to 63 per cent while that of Administration would increase to 18 per cent and that of Policy Direction and Administration to 37 per cent of total regular and operational budget resources.

V. CRITICAL MASS CONSIDERATIONS

31. In elaborating the different budget reduction proposals, the need to maintain a critical mass of staff and other resources to ensure effectiveness and development impact was a paramount consideration for the Secretariat.

32. The need for UNIDO to achieve critical mass to be able to carry out its mandate successfully was first emphasized in the November 1992 Danish Evaluation Report entitled "A Future UNIDO". While the introduction of the critical mass concept provided a useful conceptual tool, there was little guidance given in the report on how to operationalize, let alone quantify this concept. Also, to the knowledge of the Secretariat, no generally applicable approach to quantify critical mass has been developed elsewhere.

33. Critical mass can be defined as the number both of qualified Professional-level and General Service-level staff with the requisite combination of skills, experience and aptitudes needed to effectively carry out and maintain the core functions and activities of UNIDO with an adequate delivery capacity to ensure sustainable developmental impact. The concept of critical mass must also consider the future development of the core functions and activities of UNIDO.

34. In essence, critical mass depends on a combination of:

- The types of skills and the relevant experience required by individual staff;
- The interaction of different skills required for effective teamwork;
- The mobilization of networks of experts and consultants;
- Demand considerations—that is, the volume of services requested and delivered.

35. Critical mass is therefore closely linked with the existing and potential comparative advantages of UNIDO, above all the capacity to provide integrated packages of services, as stressed in the May 1997 Danish Assessment of UNIDO. This means UNIDO must concentrate its resources in its areas of comparative advantage in order to achieve critical mass and "make a difference". Critical mass can thus only be meaningfully defined at the level of the entire Organization to be able to offer an integrated array of services from policy to technical advisory services. It has to take into account that outputs are usually delivered by more than one organizational unit

Table 2

PROGRAMME AND BUDGETS, 1998-1999

Resource allocations by major area of activity

(In thousands of US dollars at US$ 1 = AS 12.90, at 1996-1997 rates)

	BUDGET SCENARIOS					
	10%		20%		30%	
	$	%	$	%	$	%
Strengthening of Industrial Capacities						
Programmes	54,816.3	32.7	47,102.0	31.3	42,166.1	31.8
Regional Programme Management	20,243.8	12.1	17,921.1	11.9	9,979.7	7.5
Technical Cooperation Management	7,955.4	4.7	6,731.4	4.5	6,164.7	4.6
SUBTOTAL	83,015.5	49.5	71,754.5	47.7	58,310.5	43.9
Cleaner and Sustainable Industrial Development						
Programmes	18,559.4	11.1	17,579.0	11.7	16,421.1	12.4
Regional Programme Management	6,854.1	4.1	6,688.3	4.4	3,886.5	2.9
Technical Cooperation Management	5,370.6	3.2	5,258.7	3.5	5,179.7	3.9
SUBTOTAL	30,784.1	18.4	29,526.0	19.6	25,487.3	19.2
Policy Direction and Administration						
Policy-making Organs	7,365.9	4.4	6,898.2	4.6	6,898.2	5.2
General Management	12,539.5	7.5	11,126.7	7.4	11,126.7	8.4
Administration	26,256.8	15.7	24,120.6	16.0	23,729.0	18.0
VIC Buildings Management	7,739.0	4.6	7,127.9	4.7	7,127.9	5.4
SUBTOTAL	53,901.2	32.1	49,273.4	32.7	48,881.8	37.0
TOTAL	167,700.8	100	150,553.9	100	132,689.6	100

through inter-divisional teams. This requirement renders the operationalization of critical mass more complex, in terms of arriving at the exact number of staff needed to carry out core tasks.

36. Finally, critical mass cannot be a static concept if UNIDO is to be flexible in meeting the changing demands of its clients in a rapidly changing global development context. This also requires that UNIDO maintain a presence close to client needs in the field, which adds another important dimension to the concept. In addition, it implies that skill development is a vital ingredient of critical mass to ensure up-to-date skills, relevant experience, and continuity by upgrading the Organization's skill base, as skill requirements change or staff members retire.

Skills required for the core functions of UNIDO

37. While UNIDO gives added emphasis in its activities on African countries and LDCs, the Organization's mandate is based on the principle of universality—that is, to respond to the industrial development needs and support requirements of all Member States with developing or transition economies. This principle of universality calls for the following additional skills and requirements in determining critical mass:

- Up-to-date global, regional and country knowledge;
- Effective field coverage through UNIDO subregional and country offices;
- Language skills in all official United Nations languages;
- Skills to address general global forum and normative functions.

38. Furthermore, in addition to more technical skills, staff skills are needed for effective multidisciplinary teamwork and for the various phases of programme and project cycle management, such as design, funds mobilization, monitoring and evaluation. Also, UNIDO faces the challenge of ensuring continuity of quality services in a number of technical areas where senior staff are due to retire shortly. Finally, the frequent project-related travel commitments of Professional-level staff require General Service-level staff capable of carrying out project administration functions rather than routine clerical work. The latter also implies that the ratio of General Service-level to Professional-level staff cannot be reduced beyond certain limits.

Demand and delivery capacity: A growing gap

39. The importance of critical mass considerations in the context of the proposed budget scenarios is shown vividly when a comparison is made between the growing demand and approval for the services of UNIDO on the one hand, and the actual delivery capacity on the other hand (see figure below).

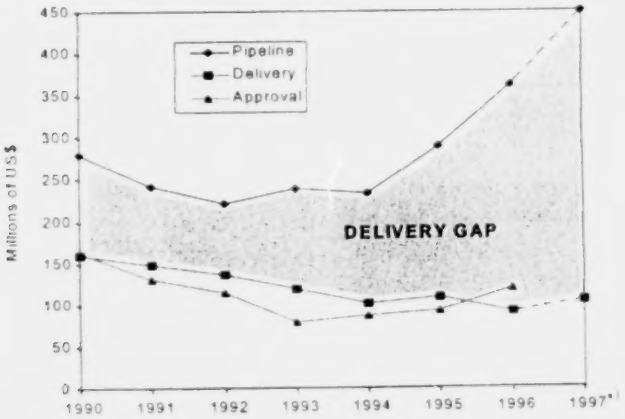
40. The accumulated project pipeline is a proxy for the demand for UNIDO services by Member States. Net approvals—new approvals and project revisions—signify effective demand backed by funding. The data clearly show that since 1990—and particularly since 1993, when UNIDO reforms began—the effective demand for the services of UNIDO has been increasing sharply, especially between 1995 and 1996. Effective demand, as measured by net approvals, has increased by nearly 50 per cent between 1993 and 1996 and by 28 per cent between 1995 and 1996 alone. This is a clear reflection of the renewed support by Member States for the new priorities, focus and thus relevance of UNIDO as a result of the reform process.

41. Staff productivity, as measured by project delivery per staff member, has also increased, by 22 per cent, between 1993 and 1996 through improved procedures, increased use of information technologies and the focusing of resources on areas of impact.

42. However, the data also show an increasing delivery gap measured by the ratio of delivery to the accumulated pipeline, especially since 1993. For example, in 1992, this ratio stood at 61 per cent. In 1996, it had fallen to only 25 per cent. The July 1997 pipeline data show a further upsurge in the accumulated pipeline which will lead to a further widening of the delivery gap in the near future despite the expected increase in delivery which is estimated to reach approximately $100 million in 1997. These figures illustrate dramatically that, while there is an increasing demand for the services of the reformed UNIDO, and although staff productivity has significantly increased, the capacity of UNIDO to satisfy demand has suffered as a result of recent staff reductions.

43. In this context, the Director-General reiterates his earlier proposal (as contained in document IDB/S.7/2, chapter F) to develop stable sources of income for UNIDO, *inter alia* through increased flexibility in the financial rules and regulations, the development of innovative approaches towards mobilization of extrabudgetary resources, and the identification of UNIDO services that could be made available against payment of fees or reimbursement of full costs.

UNIDO Technical Cooperation
Pipeline, Approval and Delivery 1990-1996 (in millions of US$)



*) Estimates based on July 1997 figures

	Accum. Pipeline	Net Approvals	Delivery	Share of Delivery/Pipeline
1990	280	162	160	57%
1991	241	130	147	61%
1992	222	114	136	61%
1993	240	79	119	50%
1994	233	86	101	43%
1995	289	92	109	38%
1996	362	118	91	25%

Illustrative examples

44. The following illustrative examples anchor the concept of critical mass in the context of specific Programmes and Subprogrammes in the programme and budgets, 1998-1999.

Investment Promotion and Technology Transfer (Subprogramme C.1.1)

45. Investment promotion and technology transfer has been identified as a major priority for UNIDO in the Business Plan and as such is a core Subprogramme in the programme and budgets. It requires, in particular, highly developed skills in the identification, formulation, appraisal and actual promotion of investment projects; networking and information dissemination skills; knowledge of differing country and regional requirements for investment and technology—especially for African countries and LDCs; knowledge of key sources of investment and relevant technology, as well as private sector development needs.

46. The Subprogramme is global in coverage. Language skills in all the major United Nations languages and advisory and training skills are critical additional requirements. The Subprogramme has an emphasis on small and medium industries, thus adding special requirements in supporting such enterprises. Under the 10 per cent scenario, 22.7 Professional-level staff constitute a critical mass which is barely sufficient to meet the fast-growing demand for UNIDO services in this area. Under the 20 per cent scenario, a reduction to 20.7 Professional-level staff would already imply a loss of that critical mass while, under the 30 per cent scenario, the Subprogramme, with only 15.7 Professional-level staff, would clearly lose its effectiveness and impact.

Agro-industries (Subprogramme C.4.1)

47. Agro-industries are another priority in the Business Plan and constitute a core UNIDO Subprogramme. The technical skills required are sector-specific, covering a wide range of technologies and production processes, *inter alia* in the food, leather, textiles and wood subsectors. Besides technical skills, staff must be able to develop and manage projects as well as provide significant inputs in obtaining funding and working with other core UNIDO teams, especially those covering African and LDC development issues. The Subprogramme is universal in coverage with language skills required in all United Nations languages. 10.4 Professional-level posts constitute the critical mass under the 10 per cent scenario. Given the importance of agro-industries in industrial development, particularly of poorer countries and the strong demand for UNIDO services in this area, this figure represents a bare minimum. There are, therefore, no further reductions envisaged in this Subprogramme by the Secretariat under the 20 per cent and 30 per cent scenarios.

Field Representation

48. The Business Plan calls for a significant decentralization of UNIDO activities to the field and increased field presence. The UNIDO field representation programme attempts to respond to this call. An adequate field presence is essential to monitor country and regional level developments, to be swift in response to the identified demands of Member States, as well as to develop coherent and integrated programmes and support measures in cooperation with other United Nations and international agencies. The Programme, by its very nature, has to ensure proper coverage of all developing regions.

49. Under the 10 per cent scenario, 24 field offices (comprised of 10 subregional and 14 country offices) are proposed. Under the 20 per cent scenario, only 20 field offices (10 subregional and 10 country offices) could be maintained. In the 30 per cent scenario, only five sub-regional offices can be envisaged. No country offices are foreseen in this scenario. Implementation of this scenario would cripple the field presence of UNIDO and seriously undermine the Organization's relevance and viability. It would be hard for UNIDO to maintain a country focus, identify client needs or respond in an expeditious manner. This would compromise the attempt by UNIDO to harmonize its activities and field presence within the new framework proposed by the Secretary-General for a unified United Nations presence at the country level and a coherent United Nations Development Assistance Framework.

Quality Assurance and Evaluation (Programme F.2)

50. The need to maintain and improve the quality and effectiveness of UNIDO programmes and projects is vital for the Organization's success. The UNIDO quality assurance and evaluation programme is therefore a critical support function. The Programme ensures the relevance, sustainability and development impact of UNIDO technical cooperation programmes and projects, and that the lessons learned from evaluation are effectively disseminated and applied in the design of UNIDO technical cooperation programmes.

51. The Programme requires specialized knowledge of modern quality assurance and evaluation techniques, particularly the logical framework approach and objectives-oriented project planning (OOPP). The Programme also requires a global coverage and linguistic skills in all major United Nations languages. Under the 10 per cent scenario, seven Professional-level staff would be maintained, which the Secretariat considers to be a critically low level, compared to 11 Professional-level posts in the 1996-1997 programme and budget. Under the 20 per cent scenario, staffing would be further reduced to six Professional-level posts. At this level, it would be very difficult to ensure the continued high quality and effective evaluation of UNIDO services.

VI. PERFORMANCE INDICATORS

52. The Board, in its decision IDB.17/Dec.2, called for the development of a set of criteria and indicators that would allow the future assessment of the implications and the monitoring of the implementation of the UNIDO reform process, including the performance of the Organization, in particular through the programme and budget.

53. Below, the Secretariat is proposing a first set of basic quantifiable performance indicators which are directly linked to the programme and budget. Further indicators, possibly including also indicators of a more qualitative nature, could be developed in consultation with Member States. The indicators presented in table 3 below would become a regular feature of future programme and budget documents thus allowing a monitoring and assessment of their development over time.

VII. SUMMARY AND OUTLOOK

54. The process leading to the presentation of the three different budget scenarios has involved intense consultations between the Director-General and Member States through both informal mechanisms and meetings of the policy-making organs. The Secretariat has played an

Table 3

Basic Performance Indicators, 1998-1999

	BUDGET SCENARIOS		
	10%	20%	30%
Share of Administration in total RB/OB resources			
• Excluding Buildings Management	15.7%	16.0%	18.0%
• Including Buildings Management	20.3%	20.7%	23.4%
Share of Policy Direction and Administration (incl. Buildings Management (in total RB/OB resources))	32.1%	32.7%	37.0%
Expected volume of technical cooperation (in US$ million)	227.8	211.6	197.2
Ratio of General Service posts to Professional posts	1.1 : 1	1.1 : 1	1.1 : 1
Share of field office resources in total RB/OB resources	10.4%*	10.1%	3.8%

* Note: This share reflects a significant degree of decentralization compared to the 1996-1997 biennium. In that biennium, around 60 per cent of regional programme management resources were allocated to Headquarters and some 40 per cent to the field. In the 10 per cent scenario for 1998-1999, close to 75 per cent of these resources would be in the field and only some 25 per cent at Headquarters.

active role in this dialogue and has provided information, advice and specific proposals to Member States.

55. In deciding on the overall budget level for the biennium 1998-1999, the Director-General urges Member States to take into consideration the results of the overall UNIDO reform process as well as a number of positive recent developments, in particular:

(a) The positive Danish Assessment of UNIDO issued in May 1997 which concluded that "there are clearly identifiable needs, and even increasingly so, for the kinds of services provided by UNIDO" and that "no other international organization has the same comprehensive experience, technical knowledge and multi-disciplinary expertise for combining and linking industrial technical cooperation services targeted at both the policy and strategy level, the institutional framework level and the enterprise level.";

(b) The decision of the Government of the United Kingdom announced in July 1997 to remain a member of UNIDO; in justifying this decision, the British Secretary of State for International Development stated that "UNIDO has made significant reforms. It has been down-sized substantially and refocused its activities into areas where it has a comparative advantage and which meet priority needs in developing countries and those in transition.";

(c) The encouraging long-term perspective for the mandate of UNIDO as put forward in the reform proposals of the Secretary-General;

(d) The rapidly increasing demand for the services of UNIDO as reflected in the growing pipeline of requests for assistance from all developing regions and countries with economies in transition.

56. In the assessment of the Director-General, the 10 per cent scenario, while not desirable, could be implemented through the discontinuation of certain activities in accordance with the Business Plan, and additional cost-cutting measures resulting from organizational streamlining and efficiency-enhancing measures. The 20 per cent scenario would imply a serious weakening of the Organization's substantive capacities and its field representation which would impair the future potential of UNIDO to effectively respond to the rising demand for its services.

57. The Director-General in particular advises strongly against any budgetary reductions exceeding 20 per cent. Such reductions, as previously pointed out in his document on the Future of UNIDO (IDB/S.7/2, para. 61), would clearly jeopardize the relevance of UNIDO. Moreover, it is the considered opinion of the Director-General that they could not be reconciled with the priorities established and activities as defined in the Business Plan.